

THREE OAKS PUBLIC SCHOOL ACADEMY

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)**

YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

July 27, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy (the Academy), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Three Oaks Public School Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

July 27, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2006, on our consideration of Three Oaks Public School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mamer, Costeniser & Ellis, P.C.".

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Three Oaks Public School Academy's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

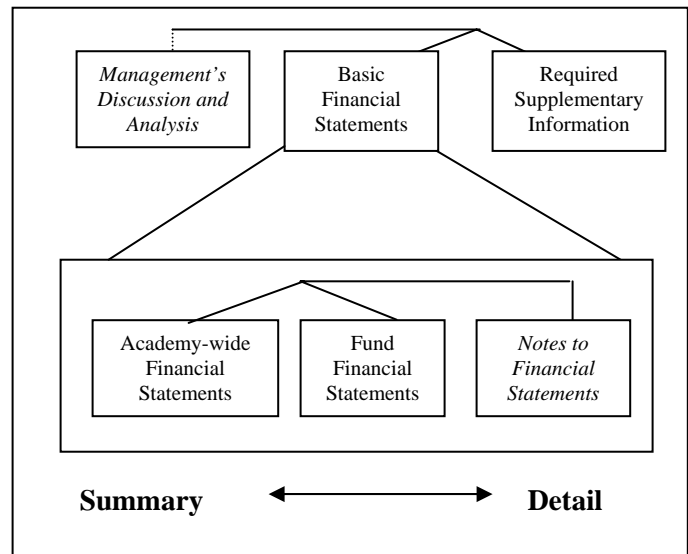
- The Academy had an increase in the fund balance in the general fund of \$167,193 compared to a budgeted figure of \$(51,594). This gives the Academy a general fund balance of \$173,647.
- The Academy retired \$250,655 in long-term debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

Figure A-1
Organization of Three Oaks Public School Academy's Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. The Academy has a general fund and special revenue fund.

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$191,609 improved by \$89,901 during the year. See Figures A-3 and A-4.

The total revenues increased by 3% to \$1,166,972. This is mainly due to an increase in the state aid foundation allowance. State aid foundation allowance included in revenue from state sources accounts for approximately 85% of the Academy's revenue.

The total cost of instruction decreased by 25% to \$459,892. Total support service increased by 17% to \$547,795. Both are primarily due to redirecting funds to support the staff in areas such as professional development and support the students in areas of social work and occupational therapy.

Academy governmental activities

Figure A-3		
Three Oaks Public School Academy's Net Assets		
	2006	(restated) 2005
Current assets	\$ 378,478	\$ 279,695
Capital assets, net	47,490	339,047
Total assets	425,968	618,742
Current liabilities	222,956	517,034
Long-term liabilities	11,403	
Total liabilities	234,359	517,034
Net assets:		
Invested in capital assets, net of related debt	17,962	95,254
Unrestricted	173,647	6,454
Total net assets	\$ 191,609	\$ 101,708

Figure A-4		
Changes in Three Oaks Public School Academy's Net Assets		
	2006	(restated) 2005
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 266,050	\$ 195,078
Charges for services	2,755	
General revenues:		
State aid - unrestricted	989,372	968,985
Other	42,482	43,420
Total general revenues	1,031,854	1,012,405
Loss on disposition of asset	(133,687)	(72,513)
Total revenues	1,166,972	1,134,970
Expenses:		
Instruction	459,892	615,454
Support services	547,795	469,174
Community service	12,969	11,263
Food service	31,597	
Interest on long-term debt	9,307	13,945
Unallocated depreciation	15,511	14,705
Total expenses	1,077,071	1,124,541
Change in net assets	\$ 89,901	\$ 10,429

Financial analysis of the Academy's funds

The Academy's fund balance increased by \$167,193 to \$173,647. Principal and interest payments on long-term debt of \$259,962 were made from the general fund. Instruction expenses decreased by \$155,562 and support service expenses increased by 78,621.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both revenue and expenditures which reflected anticipated increases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues and other financing sources or uses by \$51,594, the actual results for the year showed revenues over expenditures of \$167,193.

Actual revenues were \$119,128 more than budgeted, due primarily to additional state aid received.

Actual expenditures were \$92,873 over budget, due primarily to unbudgeted principal debt retirement.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2006, the Academy had invested \$47,490 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a decrease of \$291,557 from the beginning of the year. Total depreciation expense for the year was \$15,511. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5				
Three Oaks Public School Academy's Capital Assets				
	2006			2005
	Cost	Accumulated depreciation	Net book value	Net book value
Furniture and equipment	\$ 88,755	\$ 41,265	\$ 47,490	\$ 49,636
Land				289,411
Total	<u>\$ 88,755</u>	<u>\$ 41,265</u>	<u>\$ 47,490</u>	<u>\$ 339,047</u>

Long-term debt

The Academy repaid principal on long-term debt of \$250,655 during 2006. The Academy borrowed additional debt of \$36,390 during the year. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The foundation allowance was increased \$210 (3%) to \$7,385 per pupil for the fiscal year 2007.
- The Academy has adopted a balanced budget for 2007.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC at P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

**THREE OAKS PUBLIC SCHOOL ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 14,148
Due from other governmental units	364,330
TOTAL CURRENT ASSETS	378,478
NONCURRENT ASSETS:	
Capital assets	88,755
Less accumulated depreciation	(41,265)
TOTAL NONCURRENT ASSETS	47,490
TOTAL ASSETS	\$ 425,968
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 108,290
Accrued salaries and related items	62,968
Accrued management fee	33,573
Current portion of note payable	18,125
TOTAL CURRENT LIABILITIES	222,956
NONCURRENT LIABILITIES:	
Noncurrent portion of note payable	11,403
TOTAL LIABILITIES	234,359
NET ASSETS:	
Invested in capital assets, net of related debt	17,962
Unrestricted	173,647
TOTAL NET ASSETS	191,609
TOTAL LIABILITIES AND NET ASSETS	\$ 425,968

**THREE OAKS PUBLIC SCHOOL ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 459,892	\$	\$ 139,821	\$ (320,071)
Support services	547,795		103,225	(444,570)
Community service	12,969			(12,969)
Food service	31,597	2,755	23,004	(5,838)
Interest and fees	9,307			(9,307)
Depreciation (unallocated)	15,511			(15,511)
Total governmental activities	<u>\$ 1,077,071</u>	<u>\$ 2,755</u>	<u>\$ 266,050</u>	<u>(808,266)</u>
General revenues/(expenses):				
State sources				989,372
Loss on disposition of asset				(133,687)
Incoming transfer from Muskegon ISD				38,129
Other				<u>4,353</u>
Total general revenues				<u>898,167</u>
CHANGE IN NET ASSETS				89,901
NET ASSETS , beginning of year (as restated, see note 14)				<u>101,708</u>
NET ASSETS , end of year				<u>\$ 191,609</u>

**THREE OAKS PUBLIC SCHOOL ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 9,322	\$ 4,826	\$ 14,148
Receivables:			
Due from other governmental units	364,330		364,330
Due from other fund	1,588		1,588
TOTAL ASSETS	<u>\$ 375,240</u>	<u>\$ 4,826</u>	<u>\$ 380,066</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 105,052	\$ 3,238	\$ 108,290
Due to other fund		1,588	1,588
Accrued salaries and related items	62,968		62,968
Accrued management fee	33,573		33,573
TOTAL LIABILITIES	201,593	4,826	206,419
FUND BALANCES:			
Unreserved, undesignated	173,647		173,647
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 375,240</u>	<u>\$ 4,826</u>	<u>\$ 380,066</u>
Total governmental fund balances			\$ 173,647
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of the capital assets is		\$ 88,755	
Accumulated depreciation is		<u>(41,265)</u>	47,490
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Note payable			<u>(29,528)</u>
Net assets of governmental activities			<u>\$ 191,609</u>

THREE OAKS PUBLIC SCHOOL ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
REVENUES:			
Local sources:			
Food sales	\$	\$ 2,755	\$ 2,755
Other local revenue	4,353		4,353
Total local sources	4,353	2,755	7,108
State sources	1,060,998		1,060,998
Federal sources	171,420	23,004	194,424
Incoming transfers	38,129		38,129
Total revenues	1,274,900	25,759	1,300,659
EXPENDITURES:			
Instruction:			
Basic programs	354,524		354,524
Added needs	105,368		105,368
Total instruction	459,892		459,892
Support services:			
Pupil	72,076		72,076
Instructional staff	30,318		30,318
General administration	175,973		102,394
School administration	105,595		105,595
Business services	5,785		5,785
Operation and maintenance	159,734		159,734
Pupil transportation	1,565		1,565
Central support services	10,114		10,114
Total support services	561,160		561,160
Community service	12,969		12,969
Food service		31,597	31,597
Debt service:			
Principal	250,655		250,655
Interest	9,307		9,307
Total debt service	259,962		259,962
Total expenditures	1,293,983	31,597	1,325,580
EXCESS OF EXPENDITURES OVER REVENUES	(19,083)	(5,838)	(24,921)
OTHER FINANCING SOURCES (USES):			
Proceeds from long-term obligations	36,390		36,390
Proceeds from sale of capital assets	155,724		155,724
Operating transfers from other funds		5,838	5,838
Operating transfers to other funds	(5,838)		(5,838)
Total other financing sources	186,276	5,838	192,114
NET CHANGE IN FUND BALANCES	167,193		167,193
FUND BALANCES:			
Beginning of year, (as restated, see note 14)	6,454		6,454
End of year	\$ 173,647	\$	\$ 173,647

**THREE OAKS PUBLIC SCHOOL ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds	\$ 167,193
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	13,365
Depreciation expense	(15,511)
Net book value of asset sold	(289,411)

Proceeds and repayments of principal on long-term debts are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities).

Principal repayment	250,655
Proceeds from issuance of debt	<u>(36,390)</u>

Change in net assets of governmental activities	<u><u>\$ 89,901</u></u>
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THREE OAKS PUBLIC SCHOOL ACADEMY NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Three Oaks Public School Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Three Oaks Public School Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Bay Mills Community College is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2011. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Other Non-major fund

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in the special revenue fund.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectibles.

3. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Furniture and equipment	4 - 15 years
Computer equipment	4 - 5 years

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

4. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Annual appropriations lapse at year end.

THREE OAKS PUBLIC SCHOOL ACADEMY **NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

Excess of expenditures over appropriations in budgeted funds - During the year, the local governmental unit incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

Budgeted item	Budget appropriation	Actual expenditure	Budget variable
General fund - general administration	\$ 170,279	\$ 175,973	\$ (5,694)
General fund - debt service principal	63,400	250,655	(187,255)
General fund - debt service interest	4,800	9,307	(4,507)

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2006, none of the Academy's bank balance of approximately \$69,258 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 289,411	\$	\$ 289,411	\$
Capital assets, being depreciated:				
Furniture and equipment	75,390	13,365		88,755
Accumulated depreciation:				
Furniture and equipment	25,754	15,511		41,265
Net capital assets being depreciated	49,636	(2,146)		47,490
Net governmental capital assets	\$ 339,047	\$ (2,146)	\$ 289,411	\$ 47,490

Depreciation for the fiscal year ended June 30, 2006 amounted to \$15,511. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2006, the Academy has no amount outstanding from its state aid anticipation note dated September 30, 2005. The note, which has an interest rate of 6.50%, matured June 20, 2006. The note was secured by future state school aid payments.

Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
<u>\$ 50,769</u>	<u>\$ 200,000</u>	<u>\$ (250,769)</u>	<u>\$</u>

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2006:

	Mortgage note payable	Note payable	Note payable	Total
Long-term debt, July 1, 2005	\$ 192,793	\$ 51,000	\$	\$ 243,793
Additions:				
Bank note			36,390	36,390
Deductions:				
Principal payments	(192,793)	(51,000)	(6,862)	(250,655)
Balance, June 30, 2006			29,528	29,528
Less current portion			(18,125)	(18,125)
Total due after one year	<u>\$</u>	<u>\$</u>	<u>\$ 11,403</u>	<u>\$ 11,403</u>

Long-term debt currently outstanding is as follows:

Note payable with monthly installments of \$1,666 through January 10, 2008 with an interest rate of 8.75%. The loan is unsecured.

\$ 29,528

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$2,189 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 18,125	\$ 1,862	\$ 19,987
2008	11,403	327	11,730
	<u>\$ 29,528</u>	<u>\$ 2,189</u>	<u>\$ 31,717</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 are as follows:

<u>Receivable fund</u>	<u>Payable fund</u>
General fund <u>\$ 1,588</u>	Special revenue fund <u>\$ 1,588</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

<u>Operating transfers in</u>	<u>Operating transfers out</u>
Special revenue fund <u>\$ 5,838</u>	General fund <u>\$ 5,838</u>

Operating transfers were made to the special revenue fund (food service) to cover operating expenses.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to the Bay Mills Community College, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$32,000 for oversight fees.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy had entered into a five year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is \$126,256 for the fiscal year 2006.

NOTE 11 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools.

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - BUILDING LEASE

The Academy leases a building for the use of classrooms under a non-cancelable operating lease through July 2007. The monthly lease payment is based on the February and September 2005 pupil count for the current fiscal year. The building lease expense for the year ended June 30, 2006 was approximately \$74,000.

Future minimum rental payments are as follows:

Year ending June 30	
2007	\$ 84,879
2008	7,073
	<u>\$ 91,952</u>

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

Accrued salaries and related benefits, accrued management fees and section 18 receivable were not recorded in the financial statements for the year ended June 30, 2005. These errors have been corrected resulting in the following effects on the beginning net assets/fund balance:

	Net assets	General fund - fund balance
June 30, 2005 net assets/fund balance, as previous reported	\$ 165,145	\$ 69,891
Adjustment for section 18 receivable	23,837	23,837
Adjustment for accrued salaries and benefits	(71,374)	(71,374)
Adjustment for accrued management fees	(15,900)	(15,900)
June 30, 2005 net assets/fund balance, as restated	<u>\$ 101,708</u>	<u>\$ 6,454</u>

REQUIRED SUPPLEMENTARY INFORMATION

**THREE OAKS PUBLIC SCHOOL ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 35,250	\$ 4,150	\$ 4,353	\$ 203
State sources	992,017	951,293	1,060,998	109,705
Federal sources	41,898	169,742	171,420	1,678
Incoming transfers		30,587	38,129	7,542
Total revenues	<u>1,069,165</u>	<u>1,155,772</u>	<u>1,274,900</u>	<u>119,128</u>
EXPENDITURES:				
Instruction:				
Basic programs	302,813	376,586	354,524	22,062
Added needs	<u>125,295</u>	<u>145,708</u>	<u>105,368</u>	<u>40,340</u>
Total instruction	<u>428,108</u>	<u>522,294</u>	<u>459,892</u>	<u>62,402</u>
Support services:				
Pupil	20,827	77,971	72,076	5,895
Instructional staff	5,125	36,567	30,318	6,249
General administration	144,880	170,279	175,973	(5,694)
School administration	113,812	119,620	105,595	14,025
Business	20,600	9,985	5,785	4,200
Operation and maintenance	138,098	161,869	159,734	2,135
Pupil transportation	2,000	2,000	1,565	435
Central support services	<u>10,000</u>	<u>11,000</u>	<u>10,114</u>	<u>886</u>
Total support services	<u>455,342</u>	<u>589,291</u>	<u>561,160</u>	<u>28,131</u>
Community service activities	<u>8,353</u>	<u>21,325</u>	<u>12,969</u>	<u>8,356</u>
Debt service:				
Principal	74,000	63,400	250,655	(187,255)
Interest		4,800	9,307	(4,507)
Total debt service	<u>74,000</u>	<u>68,200</u>	<u>259,962</u>	<u>(191,762)</u>
Total expenditures	<u>965,803</u>	<u>1,201,110</u>	<u>1,293,983</u>	<u>(92,873)</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>103,362</u>	<u>(45,338)</u>	<u>(19,083)</u>	<u>26,255</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term obligations			36,390	36,390
Proceeds from the sale of capital assets			155,724	155,724
Operating transfers (out)		(6,256)	(5,838)	418
Total other financing sources		<u>(6,256)</u>	<u>186,276</u>	<u>192,532</u>
NET CHANGE IN FUND BALANCES	<u>\$ 103,362</u>	<u>\$ (51,594)</u>	<u>167,193</u>	<u>\$ 218,787</u>
FUND BALANCE:				
Beginning of year, (as restated, see note 14)			<u>6,454</u>	
End of year			<u>\$ 173,647</u>	



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

July 27, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy as of and for the year ended June 30, 2006, which collectively comprise Three Oaks Public School Academy's basic financial statements of the Academy and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Three Oaks Public School Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

July 27, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Three Oaks Public School Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Three Oaks Public School Academy in a separate letter dated July 27, 2006.

This report is intended for the information and use of the Board of Directors, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

 E. Ellis, P.C.

Certified Public Accountants



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July 27, 2006

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

In planning and performing our audit of the financial statements of Three Oaks Public School Academy for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During our audit we were not aware of any matters that were opportunities for strengthening internal controls and operating efficiency. However, several informational comments on items that will affect the Academy in the future follow. This letter does not affect our report dated July 27, 2006, on the financial statements of Three Oaks Public School Academy.

General Information:

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the Academy in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where an Academy's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 5 of the financial statements. While there may be technical violations of the act we believe the Academy's current budget procedures are adequate.

Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the Academy within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Academy's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Academy beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Academy. We will have to evaluate the Academy's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

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July 27, 2006

We have already discussed these comments with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of Three Oaks Public School Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costenisa & Ellis, P.C.



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July 27, 2006

To the Board of Directores
Three Oaks Public School Academy
Muskegon, Michigan

We have audited the financial statements of Three Oaks Public School Academy for the year ended June 30, 2006, and have issued our report thereon dated July 27, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 21, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Three Oaks Public School Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Three Oaks Public School Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Three Oaks Public School Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Three Oaks Public School Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Three Oaks Public School Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Three Oaks Public School Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Three Oaks Public School Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of Three Oaks Public School Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costeniser & Ellis, P.C.